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western supplies limited

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ANNUAL REPORT
for the year ending January 31, 1977

WSL WESTERN SUPPLIES LIMITED

14635 - 121A AVENUE, EDMONTON, ALBERTA

DIRECTORS

J. Alexander
M. L. Cosgrove
Thomas A. Graham
T. A. Graham
W. A. Graham
F. R. Godfrey
P. L. P. Macdonnell, Q.C.
L. C. Reise
H. W. Skaret
W. R. Taprell

OFFICERS

T. A. Graham, Chairman of the Board
W. A. Graham, President
J. Alexander, Vice-President
L. C. Reise, Vice-President
H. W. Skaret, Vice-President
F. R. Godfrey, Exec. Vice Pres. & Treasurer
Thomas A. Graham, Secretary

TRANSFER AGENT AND REGISTRAR

National Trust Company, Limited
Edmonton, Toronto, Vancouver

AUDITORS

Peat, Marwick, Mitchell & Co.
25th Floor, 10020 - 100 Street
Edmonton, Alberta

BANKERS

Canadian Imperial Bank of Commerce

ANNUAL MEETING

The annual meeting of shareholders will be held at
the Edmonton Inn, Monday, June 27, 1977, at
11:30 a.m.

VICTORIA • ABBOTSFORD • CHILLIWACK • NEW WESTMINSTER • RICHMOND • VANCOUVER
KAMLOOPS • VERNON • KELOWNA • PENTICTON • CRANBROOK • PRINCE GEORGE • CAMPBELL RIVER
COQUITLAM • DAWSON CREEK • GRANDE PRAIRIE • FT. McMURRAY • EDMONTON • CAMROSE • RED DEER
LLOYDMINSTER • CALGARY • SASKATOON • REGINA • WINNIPEG • THUNDER BAY • HAMILTON
BRANTFORD • LONDON • BELLEVILLE • WOODSTOCK • WELLAND • TORONTO • ST. THOMAS
KITCHENER • SARNIA • RICHMOND HILL • COLLINGWOOD • LINDSAY • ORILLA • OSHAWA

ANNUAL REPORT TO THE SHAREHOLDERS

Notwithstanding the difficult economic conditions prevailing in Canada during 1976 and the challenging business conditions that accompanied a hesitant economy, the performance of the Company and its subsidiaries remained satisfactory.

OPERATING RESULTS

Although sales during the year increased approximately 16% to \$71,593,598 consolidated net earnings of \$1,660,440 were down 21% from the \$2,092,376 earned in the previous year. With the growth rate in construction spending on the decrease, the down turn resulted in keener competition in pricing. Accordingly, earnings did not keep pace with sales and were further affected by continued increases in operating expenses. However, certain unprofitable operating centres have been eliminated and this is expected to improve earnings during the current year.

As a result of the capital reorganization which became effective November 18, 1976 the 119,900 previously outstanding Class A shares of the Company were converted into 263,780 common shares and the 150,100 previously outstanding Class B shares of the Company were converted into 300,200 common shares. In the result there are now 563,980 common shares outstanding out of a total authorized capital of 1,000,000 common shares. After giving effect to the reorganization earnings per common share were \$2.95 compared with \$3.71 the previous year. Dividends paid during the year amounted to 93 cents per common share and were tax free in the hands of the shareholders.

EXPANSION

A new Distribution Centre was recently completed at Langley, British Columbia to better service the Company's customers and branches in the Province of British Columbia. The continued growth of the Alberta market has made it necessary to provide additional space for the operations of the main Edmonton branch. To achieve this approximately 30 head office employees will be moved into a new building now nearing completion which will be leased by the Company. It is expected that this move will be completed prior to the end of June.

OUTLOOK

While economic expectations for the year ahead are for modest growth only and national forecasts in the construction industry are not encouraging, a number of areas in which the Company operates continue to be very active and we anticipate another satisfactory year.

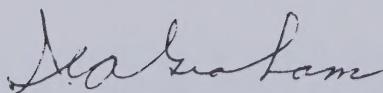
DIRECTORS

During the year Mr. L.C. Reise retired as a senior officer of the Company and will not be standing for re-election at the annual meeting. The Board wishes to acknowledge his loyal service to the Company during the years of its greatest development and growth.

GENERAL

We acknowledge with appreciation the loyalty and support of our customers and suppliers. We are indebted to all employees for their continuing contributions to the overall strength and success of the Company.

On behalf of the Board of Directors



President



Executive Vice President and Treasurer

Western Supplies Limited

CONSOLIDATED STATEMENT OF EARNINGS

Year ended January 31, 1977

(with comparative figures for 1976)

	<u>1977</u>	<u>1976</u>
Sales	\$ 71,593,598	61,669,715
Operating profit before depreciation and amortization	4,641,265	4,805,771
Depreciation and amortization of fixed assets	241,001	187,279
Amortization of goodwill	24,800	24,800
	<u>265,801</u>	<u>212,079</u>
Operating profit	4,375,464	4,593,692
Other income:		
Rental income, net	35,502	28,864
Profit on disposal of fixed assets	—	5,317
	<u>35,502</u>	<u>34,181</u>
	<u>4,410,966</u>	<u>4,627,873</u>
Other charges:		
Interest on long-term debt	202,810	169,598
Other interest	823,026	485,865
Loss on disposal of fixed assets	4,198	—
	<u>1,030,034</u>	<u>655,463</u>
	<u>Earnings before income taxes and</u>	
	<u>extraordinary item</u>	<u>3,380,932</u>
		3,972,410
Income taxes:		
Current	1,696,792	1,985,470
Deferred	23,700	—
	<u>1,720,492</u>	<u>1,985,470</u>
	<u>Earnings before extraordinary item</u>	<u>1,660,440</u>
		1,986,940
Extraordinary item:		
Gain on sale of land	—	105,436
Net earnings	<u>\$ 1,660,440</u>	<u>2,092,376</u>
Earnings per share (note 4):		
Earnings before extraordinary item	\$ 2.95	3.52
Extraordinary item	—	.19
	<u>\$ 2.95</u>	<u>3.71</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended January 31, 1977

(with comparative figures for 1976)

	<u>1977</u>	<u>1976</u>
Balance at beginning of year	\$ 10,606,328	9,070,989
Net earnings	<u>1,660,440</u>	<u>2,092,376</u>
	<u>12,266,768</u>	<u>11,163,365</u>
Deduct:		
Dividends	523,791	472,500
15% tax paid on undistributed income	91,785	84,537
	<u>615,576</u>	<u>557,037</u>
Balance at end of year	<u>\$ 11,651,192</u>	<u>10,606,328</u>

See accompanying notes to consolidated financial statements.

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Consolidated Balance S
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ASSETS

	<u>1977</u>	<u>1976</u>
CURRENT ASSETS:		
Accounts receivable	\$ 10,445,970	9,782,560
Inventories of merchandise, at the lower of cost (first-in, first-out) and estimated realizable value	13,772,752	13,414,185
Prepaid expenses	67,421	73,836
Total current assets	<u>24,286,143</u>	<u>23,270,581</u>
CASH SURRENDER VALUE OF LIFE INSURANCE	49,839	75,204
AGREEMENTS FOR SALE RECEIVABLE	—	120,491
PROPERTY, PLANT AND EQUIPMENT (note 1 (b)):		
Buildings	1,763,879	1,373,920
Furniture, fixtures and other equipment	790,724	712,437
Automotive	513,126	404,954
Other	258,540	231,186
Less accumulated depreciation and amortization	3,326,269	2,722,497
Buildings under construction (note 6)	1,641,603	1,458,256
Land	720,343	366,889
Net property, plant and equipment	<u>3,349,965</u>	<u>1,803,019</u>
GOODWILL, (note 1 (c))	377,600	402,400
 On behalf of the Board:		
	<u>\$ 28,063,547</u>	<u>25,671,695</u>

Director

Sebastian

Director

Hooley

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et, January 31, 1977

ures for 1976)

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>1977</u>	<u>1976</u>
CURRENT LIABILITIES:		
Due to bank, secured (note 2):		
Outstanding cheques less cash in bank	\$ 982,698	903,513
Notes payable	5,503,000	4,916,000
	6,485,698	5,819,513
Accounts payable and accruals	6,052,227	6,630,482
Current maturities on long-term debt (note 3)	268,150	219,500
Dividends payable	253,791	202,500
Income taxes payable	768,781	463,531
Total current liabilities	<u>13,828,647</u>	<u>13,335,526</u>
LONG-TERM DEBT (note 3)	2,204,346	1,374,179
DEFERRED INCOME TAXES	53,700	30,000
SHAREHOLDERS' EQUITY:		
Share capital (note 4)	325,662	325,662
Retained earnings	11,651,192	10,606,328
Total shareholders' equity	<u>11,976,854</u>	<u>10,931,990</u>
COMMITMENTS (note 6)		
	<u><u>\$ 28,063,547</u></u>	<u><u>25,671,695</u></u>

Western Supplies Limited

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended January 31, 1977
(with comparative figures for 1976)

	<u>1977</u>	<u>1976</u>
Funds provided:		
From operations:		
Net earnings before extraordinary item	\$ 1,660,440	1,986,940
Add charges not requiring working capital	291,163	203,069
Funds provided by operations	<u>1,951,603</u>	<u>2,190,009</u>
Proceeds from sale of land	—	123,936
Proceeds from disposal of property, plant and equipment	13,783	396,704
Proceeds from long-term bank loan	1,100,600	516,000
Reduction in agreement for sale receivable	120,491	154,195
Other	27,901	—
Total funds provided	<u>3,214,378</u>	<u>3,380,844</u>
Funds used:		
Purchase of property, plant and equipment	1,805,928	556,807
Reduction of long-term debt	270,433	267,748
Dividends	523,791	472,500
Tax paid on undistributed income	91,785	84,537
Investment in agreement for sale receivable	—	125,000
Total funds used	<u>2,691,937</u>	<u>1,506,592</u>
Increase in working capital	522,441	1,874,252
Working capital at beginning of year	<u>9,935,055</u>	<u>8,060,803</u>
Working capital at end of year	<u>\$ 10,457,496</u>	<u>9,935,055</u>

See accompanying notes to consolidated financial statements.

Western Supplies Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 1977

1. Significant accounting policies:
 (a) The consolidated financial statements include the accounts of all subsidiary companies. All material intercompany transactions have been eliminated.

(b) Property, plant and equipment is carried at cost, less accumulated depreciation and amortization. The company uses the declining balance method to provide depreciation over the estimated useful lives of the fixed assets. Depreciation rates for the more significant items are set out below:

Brick buildings	5%	Furniture, fixtures and other equipment	20%
Frame buildings	10%	Automotive equipment	30%

(c) The company is following the policy of amortizing goodwill, arising on the acquisition of subsidiary companies, equally over a period of twenty years.

(d) The company has a pension plan covering its employees. It is the policy of the company to fund pension costs on a current basis.

2. Bank loans:

The bank loans are secured to the extent of \$4,500,000 by a first floating charge on all assets and undertakings, and by assignment of accounts receivable and fire insurance on stock and fixtures. The company has signed demand notes covering all bank loans but the bank has agreed that, under normal circumstances, a portion of the loans will be payable over a ten year period. Accordingly, that portion of the bank loans has been classified as long-term debt. (note 3).

3. Long-term debt:

Long-term debt consists of:

	<u>1977</u>	<u>1976</u>
8% note payable	\$ 60,000	120,000
Agreement and mortgages payable	176,596	184,179
Bank term loan (note 2)	2,235,900	1,289,500
	<u>2,472,496</u>	<u>1,593,679</u>
Deduct current maturities	268,150	219,500
	<u><u>\$ 2,204,346</u></u>	<u><u>1,374,179</u></u>

4. Share capital:

During the year the shareholders of the company approved a capital reorganization under which the issued Class A and B shares outstanding before the reorganization were converted into common shares. As a result, 119,900 Class A shares were converted into 263,780 common shares, 150,100 Class B shares were converted into 300,200 common shares, and the authorized capital was amended so that the company is now authorized to issue 1,000,000 common shares without nominal or par value for a maximum consideration of \$1,200,000. At January 31, 1977, 563,980 common shares without nominal or par value were outstanding.

Earnings per share for the year ended January 31, 1976 has been restated giving retroactive effect to the capital reorganization referred to above.

5. Remuneration of directors and senior officers:

Fees and other remuneration of directors and senior officers totalled \$621,422 for the year ended January 31, 1977 (\$603,392 in 1976).

6. Commitments:

The company has entered into lease agreements for warehouse premises covering terms varying from one to twenty years. Rental payments amounted to approximately \$517,000 for the year ended January 31, 1977.

Estimated cost to complete buildings under construction at January 31, 1977 is \$600,000.

7. Anti-Inflation Act:

The company and its subsidiaries are subject to the Federal Anti-Inflation Act and Regulations. As a result the companies' ability to increase prices, profit margins and compensation, and to pay dividends is restricted.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Western Supplies Limited as at January 31, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at January 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Western Supplies Limited and Subsidiaries

FIVE YEAR SUMMARY

(In THOUSANDS of DOLLARS except net earnings per share)

INCOME STATISTICS	1977	1976	1975	1974	1973
Sales	\$ 71,594	61,670	60,752	44,713	32,908
Earnings before income taxes	3,380	3,972	5,828	3,587	1,170
Income taxes	1,720	1,985	3,088	1,838	573
Net earnings (see note)	1,660	2,092 (2)	2,740	1,749	806 (1)
Per share (see note)	\$ 2.95	3.71 (3)'	4.86 (3)	3.10 (3)	1.43 (3)
Dividends	524	473	371	270	202

BALANCE SHEET STATISTICS	1977	1976	1975	1974	1973
Current ASSETS	24,286	23,271	18,399	16,619	11,301
Current LIABILITIES	13,829	13,336	10,338	10,524	6,619
Working CAPITAL	10,457	9,935	8,061	6,095	4,682
Ratio of current assets to current liabilities ...	1.8	1.7	1.8	1.6	1.7
Fixed assets (net)	3,350	1,803	1,843	1,157	1,238
Long term debt	2,204	1,374	1,126	744	905
Total shareholders' equity	11,977	10,932	9,397	7,114	5,650

(1) NET EARNINGS FOR 1973 INCLUDE EXTRAORDINARY EARNINGS OF \$209,000

(2) NET EARNINGS FOR 1976 INCLUDE EXTRAORDINARY EARNINGS OF \$105,000

(3) EARNINGS PER SHARE FOR 1976 AND PRIOR YEARS HAVE BEEN RESTATED GIVING RETROACTIVE EFFECT TO THE 1977 CAPITAL REORGANIZATION.

